EMERGING FROM FINANCIAL DISTRESS STATUS: THE ROLE OF CORPORATE GOVERNANCE

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MASTER OF SCIENCE (FINANCE)

UNIVERSITI UTARA MALAYSIA

August 2018

Emerging from financial distress status: The role of corporate governance

BY

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Thesis Submitted to
Othman Yeop Abdullah Graduate School of Economics, Finance, and Banking,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Science (Finance)

Pusat Pengajian Ekonomi, Kewangan dan Perbankan
SCHOOL OF ECONOMICS, FINANCE, AND BANKING
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ABSTRACT

The main objective of this study is to examine the role of corporate governance variables on emerging financially distress companies in Malaysia. This study has selected the sample from listed companies of Main and ACE market using classification of Practice Note 4 (PN4) or Practice Note 17 (PN17) and Guidance Note (GN3) respectively in Bursa Malaysia. This study also attempted to highlight the theories of corporate governance that closely related to the Malaysian listed firms. The period of study is 13 years (2001 - 2013). Logistic regressions have been conducted and three models have developed to test the relationship between independent and dependent variables. The findings show that blockholders ownership and number of blockholders have an impact on emerging financially distressed companies. This analysis method can be applicable for those companies currently facing financial distress situation. Meanwhile, board size shows no significant relationship on emerging financially distressed companies as this shows that board size doesn't give an impact on emerging financially distressed companies.

Keywords: Corporate governance, financial distress, blockholders

ABSTRAK

Objektif utama kajian ini adalah untuk mengkaji kesan pembolehubah tadbir urus korporat terhadap syarikat-syarikat yang mengalami masalah kewangan di Malaysia. Kajian ini menggunakan sampel syarikat-syarikat tersenarai Pasaran Utama dan ACE menggunakan klasifikasi Nota Amalan 4 (PN4) atau Nota Amalan 17 (PN17) dan Nota Panduan (GN3) masing-masing dari Bursa Malaysia. Kajian ini juga mengutarakan teori-teori tadbir urus korporat yang berkait rapat dengan syarikat-syarikat yang disenaraikan di Malaysia. Tempoh pengajian adalah 13 tahun iaitu dari tahun 2001 hingga 2013. Analysis logistik telah dijalankan dan tiga model telah dibangunkan untuk menguji hubungan antara pembolehubah bebas dan pembolehubah bersandar. Penemuan menunjukkan bahawa pemilikan pemegang blok dan bilangan pemegang blok mempengaruhi syarikat yang mengalami masalah kewangan. Kaedah analisis ini boleh digunakan untuk syarikat-syarikat yang ketika ini sedang mengalami masalah kewangan. Sementara itu, saiz lembaga menunjukkan tiada hubungan signifikan dengan syarikat yang mengalami masalah kewangan. Sementara itu, saiz lembaga menunjukkan tiada hubungan yang signifikan terhadap syarikat-syarikat kewangan yang sedang mengalami masalah kewangan kerana saiz lembaga tidak akan memberi sebarang kesan kepada syarikat-syarikat kewangan yang mengalami masalah kewangan.

Kata kunci: tadbir urus korporat, masalah kewangan, pemegang blok

ACKNOWLEDGEMENT

I would like to take this opportunity to express my sincere appreciation to all those who have rendered their assistance and encouragement to me to finish my research paper. First of all, I would like to thank my supervisor, Abd Halim @ Hamilton bin Ahmad who has provided me the guidance, support, and encouragement to complete this research.

My deepest gratitude also goes to all my fellow friends who are always supporting and advising me to complete this project paper. I would also like to thank my former lecturer during my Degree who keeps supporting me from the past until now.

Last but not least, I am thankful to my beloved family and friends that gives the encouragement and support to me in completing research paper.

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LIST OF ABBREVIATIONS

ROA	Return on assets
LEV	Leverage
CAR	Cumulative Abnormal Returns
ACT	Agency cost theory
SME	Small and Medium Enterprises
GN	Guidance Note
PN	Practice Note
MCCG	Malaysian Code on Corporate Governance
SC	Securities Commission Malaysia

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Bursa Malaysia define financial distress as companies that are categorized under PN17 and GN3 under Main and ACE market respectively in Malaysian context (Ismail, Ahmad, Kamarudin, & Yahaya, 2005). In other words, corporations that seek for court protection from taking any legal custody by their creditors and restructured under the Scheme of Arrangement and Reconstruction pursuant to Section 176 (Low, Fauzias, and Yatim, 2001; Ong, Yap, and Khong, 2011; Yap, Munuswamy, and Zulkifflee, 2012). Both PN4 and GN3 have provided various regulations and requirements for corporates to obey. Detention order assists financial distress companies from taking legal custody by court since they were chased by debts due to high leverage and these companies were classified under GN3. On the other side, plenty of time was given (2 years) for companies to regularize and restructure if the company listed under PN4 as financial distress. Already, the exchange had frequently been attacked for being too moderate in its activities, making it impossible to punish organizations that did not fit in with posting necessities such as negative investors' assets (Fawzia, Kamaluddina, & Sanusib, 2015).

Corporate governance subject has been discussed around the world and it is one of the important issues. In 1997, Asian financial crisis occurred due to poor performance of corporate governance. Cortez and Penacerrada (2010) documented that both disclosure

information on firm performance and firm internal control procedures are able to enhance and strengthen the agency theory through corporate guidelines which are mutually agreed upon. Mitton (2002) argued that corporate governance protects minority shareholders from the confiscation of the power by the manager or controlling shareholder. Generally, companies that are in countries with serious governance problem and less external protection disappoint individuals to make large investment (Denis and McConnell, 2003). Thus, for the sake of country's growth, corporate governance role is significant. Akhtaruddin and Yao (2009) mentioned that to achieve the firm's objective, corporate governance code plays a significant role while also pushes the firm to disclose their performance which is a necessary activity, hence investors are able to assess the corporate performance. The author also stated that Malaysia is not an exception to introduce the corporate governance codes while most countries practice the same codes around the world. Effective January 2001, Kuala Lumpur stock exchange which currently known as Bursa Malaysia practices the Malaysian Code on corporate governance in its listing rules and this code was introduced in March 2000.

Malaysian companies' business is mostly based on family business in which these family members serve as executive directors. Agency problem are lessened if the business is owned by family members due better monitoring systems. Unclear and undefined roles and responsibilities issues might occur in family ownership especially between shareholders and managers (Ghee, Ibrahim, & Abdul-Halim, 2015). According to Claessens, Djankov and Fan (1999), single shareholder controls about more than 66% of the firms including Malaysia and nine East Asian countries. Shareholders controlled by family are around more than 50% in companies' top management. The

author also stated that more than 50% of East Asian companies are controlled by families. In order to find financial distress due to family ownership in corporate, these platforms are really good to conduct study on both financial distress and corporate governance.

Malaysia consists of various cultures due to different races in both east and west Malaysia. Malaysia companies' working culture is highly merged with many different races and this is usually regulated by Department of Employment (Zawawi, 2008). Pettigrew (1979) specified that individuals follow different norms and values even though they belong to the same cultural group. This is supported by Cornelius (2005) that country culture is one of the important criteria to be considered while examining the corporate practices of various nations around the globe. Abdullah (2006) stated that dominant roles can be found in both politics and economy by Malays and Chinese respectively. Even though majority ethnic group in Malaysia is comprised of Malays, the dominant role in economy is played by mostly Chinese (Mamman, 2002). However, no empirical findings are available to investigate the correlation of different races and corporate governance towards financial distress.

The objective of this this study is to identify the impact of corporate governance on emerging financially distressed companies in Malaysia. Companies in Malaysia will be able to reach the ideas and prospects of the importance and impact of corporate governance on financially distressed companies in the near future after knowing the effects.

1.2 Research problem

This study observes whether financially distressed companies can be emerged by using corporate governance variable in Malaysia context. In fact, corporate governance code and legal system are different from one country to another to control the financial distress, so the characteristics of corporate governance are different in Malaysia. Issues related to accounting scandal and corporate collapse and past issues contribute to the failure of corporate governance exercise in a country (Kiel, 2003). According to Norwani, Mohamad and Chek (2011), weaknesses of Malaysian corporate governance practice is highlighted to the public awareness only after the incident of Asian financial crisis in 1997 and boosted up the importance of corporate governance. Asian financial crisis leads to improving and restructuring of corporate governance implementation in countries especially Malaysia and organizations especially used corporate law as a way to improve since 1998 (Teen & Phan, 1999). In 1999, restructuring of High Level Financial Committee was initiated by ministry of finance on corporate governance. High Level Financial Committee is responsible in improving corporate control weak and reviewing the corporate governance framework (Abidin & Ahmad, 2007).

The Malaysian Code on Corporate Governance (2007 code) highlighted that "board of directors, audit committee and the internal audit function" need to be strengthen. This code which was issued in March 2000 to restructure corporate governance marked a significant milestone in Malaysia. In 2012, The Malaysian Code on Corporate Governance (MCCG) was revised to ensure energetic and accountable fiduciaries in the role of directors by strengthening board structure and composition recognizing are focused. Management and boards must not have compromised on the interest of the stakeholders, but they must ensure the best interest of the business and investors with

their efforts and resources which they must keep in their mind. The Malaysian Code on Corporate Governance role does not limit only to setting strategic direction and supervising business performance, in fact they are also required to ensure the business maintains an effective governance structure and that they complied with rules and values so that the company is able to maintain appropriate risk of management and level of internal controls. Financial performance reporting information is the essential factor that should be available timely by maintaining the quality and accuracy which is one of the main aspects of shareholders protection and market assurance. For informed decision making, disclosure and transparency of information are crucial. In Asia especially Malaysia, there is not enough of research conducted on corporate governance and financial distress.

New Malaysian Code on corporate governance (MCCG 2017) was issued on 26 April by the Securities Commission Malaysia (SC) in order to supersede the previous Malaysian Code (MCCG 2012) which takes effect immediately. Strengthening business culture pillared on accountability and transparency is the main practice to be work out with this new sets. The MCCG 2017 is considering fourth version which reviewed in 2016 by SC based on the previous version (MCCG 2000, 2007 and 2012). MCCG 2017 was reviewed with focus on changes in market structure and business needs, corporate governance improvement as the lesson from Asian Financial crisis and inputs from both local and international stakeholders. The new code describes CARE approach which stands for comprehend, apply and report in order to ensure good corporate governance is practiced by setting out several processes and also ensuring how the corporate has applied practices with meaningful and fair description that should be laid out in the code. MCCG 2017 stated that companies need to provide alternative actions or steps if

they fail to comply with the latest MCCG 2017 requirements and they should bear in mind that it is insufficient for companies if their explanations on break rules are unclear. These requirements are for all the existing large companies even though these companies are not following the practice previously in which they must disclose all the actions that have been taken before or intend to take in the future including the time frame to be taken for the prescribed practice to be applied. Close guide and considerations by the guidance are needed for these companies when they adopt these practices (Securities Commission Malaysia, 2017).

Arise of conflict and imbalance between shareholders and agents caused the corporate governance failure interrelated with agency theory issues. If the implementation of corporate governance is ineffective and not properly managed, it will caused management conflicts between shareholders and management which finally may lead to corporate scandal. Improper and ineffective management on the execution of corporate governance is the key reason for the agency theory issues to arise which tends to affect a business performance and the operations. Overall, companies are able to gain investor's confidence only by providing quality financial reports as the result of best corporate governance implementation, and yet, rise of corporate scandal is the sad truth due to existing corporate governance failure. According to Norwani, Mohamad and Chek (2011), existing corporate governance failure arise from overstatement of both financial position and revenue of the company, holding of major shares and high position such as chief executive officer by the one person and several misconducts in the directorship. Thus, the present study will extend the previous researcher argument in order to analyse the role of corporate governance on companies emerging from financial distress status.

1.3 Research Objectives

The objectives of this study are as follows:

1. To study whether board size will cause a company to emerge from financial distress status.
2. To study whether blockholders ownership will cause a company to emerge from financial distress status.
3. To study whether number of blockholders will cause a company to emerge from financial distress status.

1.4 Research Questions

1. Does board size cause a company to emerge from financial distress status?
2. Does blockholders ownership cause a company to emerge from financial distress status?
3. Does number of blockholders cause a company to emerge from financial distress status?

1.5 Significant of the Study

This study examines how corporate governance variables will contribute for a company to emerge after or during financial distress. A company's failure or value editions are both dependent on corporate governance practice and implementation. Relationship between corporate governance and financial distress in Malaysia's circumstances is the major research question of the study. Therefore, the essential impact towards financial distress by corporate governance practices includes board size, blockholders ownership and numbers of blockholders are the main focus on in this study.

Our finding provides better forecasting technique for a company that is currently facing the financial distress situation to evaluate whether the company will be emerged or delisted in the future. This study mainly focused on financial distress company interrelation with corporate governance variables including board size, blockholders ownership and number of blockholders. These corporate variables are essential elements to predict whether a company can be emerge from financial distress status.

The present study additionally proves that firm-particular attributes could be as helpful as deciding the probability of emerging financial distress. In addition, this investigation shows that corporate governance rules are connected with bring down organization costs, and more grounded firm corporate governance related to financial distress. Corporate governance's effects towards stages before and during financial distress are mostly focused by many studies. However, this study will beyond to explore on the key part of corporate governance mechanisms on whether a company could be emerged from financial distress status.

1.6 Scope and Limitations of the Study

This study has selected the sample companies from Main and ACE market using classification of Practice Note 4 (PN4) or Practice Note 17 (PN17) and Guidance Note (GN3) respectively in Bursa Malaysia. The period covered in this study is from year 2001 until 2013 as consisting of 13 years. Meanwhile, the time frame from 2014 until present is considered a period of observation to see the results of research. The total number of observations of this study is 233.

The study investigates only Malaysian firms which would condescendingly suggests that

the finding or data obtained from this examination just provides the knowledge for corporate management to see how precisely the corporate governance factors bring about effects. Furthermore, data gathering is crucial in this study as most of the corporate governance variables data are not available from some companies' annual report.

1.7 Organization of the Thesis

This study starts with an introduction to chapter one. This chapter discusses the background of the study, research problem, research questions, and objectives, significance of the study, scope and limitation of the study.

Chapter two presents the definition of corporate finance and financial distress, previous literature related to this study in order to develop a hypothesis for this research. They are divided into two sections namely theoretical literature and empirical review for independent variables and control variables.

The third chapter concentrates in shaping the research design, research framework, hypotheses development, variables selection data and sample collection. The fourth chapter discusses in detail about the result and empirical findings. The empirical finding is analysed and explained whether a hypothesis is accepted or rejected.

Then, the main conclusion and recommendation which is derived from the analysis of data are pointed out in chapter five.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The study objective is to study the effect of corporate governance mechanism on companies emerging from the financial distress situation in Malaysia. The section 2.2 and 2.3 presents the definition of corporate governance and financial distress, 2.4 discussed the theoretical literature on corporate governance and section 2.5 reviews the empirical studies on corporate governance and control variables of this study.

2.2 Definition of Corporate Governance

According to Keong (2000), refer to the rights of decision making by shareholders in boardroom and the role or responsibility of the board of directors in management decision. In fact, this is supported by The High Level Finance Committee Report where they defined corporate governance in the same perspective. Soon (2003) stated that "the procedure and structure used to coordinate and deal with the business and undertakings of the organization towards improving business flourishing and corporate responsibility with a definitive goal of acknowledging long term investor value while considering the enthusiasm of other stakeholders" is the definition provided by The High Level Finance Committee Report.

Different researchers have defined the corporate governance in different ways but in the same perspective. In order to maximize the value of firm for the owners, corporate governance influences the management teams (controllers that make decision on firm

management) in decision making for both market and institution (Dennis and McConnell, 2003). Shleifer and Vishny (1997) defined corporate governance in different words which are ‘Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.’

In simple words, corporate governance can be defined as the procedure and regulations to internal controllers (board of directors and managers) who are responsible for their "voters" including investors and shareholders. Transparency, fairness and trustworthiness are the key mechanisms that should be applied for decision making which are also emphasized by corporate governance (Abidin and Ahmad, 2007). Ownership and control elements are the key subject emphasized which was expressed by Cadbury (1993), Monks and Minow (1995). However, Blair (1995) viewed the description of the corporate governance subject in broad perspective that the role of the states is significant for the corporate governance implementation in the degree of good level. The author also stated that the interest of stakeholders is in consideration while The Malaysian High Level Finance Committee describes corporate governance as key mechanism that assists to strengthen quality of corporate accountability and business prosperity by directing and managing corporate affairs. In other words, using the law, contracts and organizational designs, how companies secure the efficient management is an area that is covered by corporate governance.

Corporate governance refers to corporate directors’ role on the implementation of objective and strategies of a company by the company directors or managers which was broadly explained by Cornelius (2005). The author also stated that corporations,

investors and administrations govern their conduct due to the arrangement of the interlocking tenets which can be seen in corporate governance. Oman, C. P. (2001) characterized corporate governance as a term alludes to the private and open establishments that incorporate laws, directions and the business hones which represent the connection between the corporate chiefs and the stakeholders.

2.3 Definition of Financial distress

When a firm has a condition in which financial obligation is not met or filled with difficulty is called financial distress (Wu, Liang, & Yang, 2008). Besides that, Chan and Chen (1991) documented financially distressed firms as those having poor execution, wasteful producers, and furthermore those liable to have high monetary use and income issues because of which firms lose their fairly estimated worth. Share prices are more sensitive to economic changes and are less likely to survive in a bad economic situation. In other words, it is marginal. Investors prefer premiums to hold risky stocks and also expect to be rewarded since they bear the risk. Typically, the financial hardship of the above nature is measured by the probability of failure (Shumway, 2001).

Different author has different view on financial distress, thus it can be defined where companies that suffer negative cash flow from operating activities, investing activities and financing activities (Jantadej 2006), default loan payments due to inadequate cash flows (Foster and Ward, 1997), enter into liquidation or consider as bankruptcy (Grice and Dugan, 2001) and with the court protection, continues to operate or liquidate (Foster and Ward, 1997). In short, financial distress is the dynamic process towards corporate failure.

According to Platt and Platt (2002), financial distress may lead a firm to default on an agreement, and it might include budgetary rebuilding between the firm, its creditors, and its value shareholders. Normally the firm is compelled to take activities that it would not have taken on the off chance that it had adequate income. According to Brigham and Daves (2003), financial distress started when the organization can't meet the installment plan or when the income projections demonstrate that the organization will soon be not able meet its commitments.

2.4 Theoretical Literature

After Asian Financial Crisis in 1997, reforming of quality corporate governance practice adopted since the crisis has obtained the attention of public regarding how weak the practices of the Malaysian corporate governance. However, there are some limitations for agencies such as Ministry of Finance, Kuala Lumpur Stock Exchange (KLSE), Securities Commission (SC) and Registrar of Company that are directly involved in corporate governance implementation. MCCG 2000 especially has influenced companies positively for corporate governance practice where MCCG 2000 is one of the essential tools for restructuring of Malaysian corporate governance. The 2007 and 2012 Malaysian Corporate Code on Corporate Governance is reviewed to ensure the standard and global practices to remain relevant and aligned with current application.

For the sake of accountability and transparency by the reinforcement of quality practice of corporate management, Malaysia SC supersedes the Malaysian Code on Corporate Governance (MCCG) on 26 April 2017. This code does not only apply for listing firm, but it also required to be practiced by non-listed firm including small and medium

enterprises (SME), state-owner enterprises and other licensed entities for the greater emphasis on the internalization of corporate governance culture.

Corporate governance and agency theory endeavors to explain connection between the shareholders or principles and agents such as directors. Therefore, it is believed that corporate governance study initially arose from agency theory. It delegates an agent to perform work or the shareholders hires is explained in agency theory. One party acts for the benefit of the other party based on the relationship of agency theory and corporate governance (Saltaji, 2013). According to Weisbach (1998) and Warner (1977), the interest of both principal and agents are not really aligned which caused difficulty according to classical agency theory. For instance, the owners of the company are able to act in two roles which are hiring employees for the various task performances and also being shareholders. Poor performance by directors in a company leads to high probability of losing their employments according to the most reliable empirical results regardless of the data examined. It will take a prolonged time to find out the director's poor performance in a company which results in forced top executive turnover or loss of job. In consistence with this statement, Gilson (1989), Kalpan and Reishus (1990) finds that remuneration level for corporate directors and past performance in defining job opportunities and this evidence was obtained from the external labor market. Since, there is poor managers' performance that has cut dividends and was less likely to be recruited by other companies for the outside managers' role.

2.5 Empirical Evidence: Corporate governance and control variables

Major corporate governance variables include board size, blockholders ownership and number of blockholders while control variables containing financial variables and

market variable. Financial variables such as total assets, total assets turnover, EBIT to interest expense ratio and leverage while market variable is Cumulative Abnormal Returns.

2.5.1 Board size

Number of individuals who serve in a company board is referred as board size. The quality of monitoring and guidance are interrelated with the number of board or board's size. More voluntary exposure is found in the large board size according to Htay and Meera (2012) which is also supported by Abeysekera (2010) who claimed that better voluntary disclosures and proper communication with investors can be assured by large number of board members. Meanwhile, Schiehll, Tera and Victor (2013) study shows that in Brazilian organizations, a study expressed that the degree of voluntary disclosure has fundamental relation with the board size and the presence of compensation committee. However, when the board of size increases or grows, the management control will be decreased which leads to less effectiveness in monitoring (Jensen, 1983). This is supported by Vafeas (2000) as the management will be more effective in monitoring when the responsibilities are handled by small number of board directors.

According to Jensen (1993), stated that ineffective management can be found when the boards consist of more than seven or eight members. He also added that ineffective management can be found from poor communication, coordination and decision making when there are larger board directors. Negative relationship is found between board size and corporate value based on empirical studies on board size (Sunday, 2008). Therefore, practical discussions of important issues for the management control between board members are less effective. Lipton and Lorsch (1992) argue that it is easier for CEO to control the management with the smallest board size or else

challenges and problems arise when a board size gets large and difficult to develop and organize. Yermack (1996), Eisenberg, Sundgren and Wells (1998) study also supported to this issue, whereby Yermack (1996) obtained negative correlation between board size and financial gain in Finland, while Eisenberg, Sundgren and Wells (1998) attained positive correlation between corporate performance and small size board. The author also stated that better monitoring and better-informed board members about earnings can be done with a minimum of five board directors. Mak and Yuanto (2003) shared the same idea that better corporate performance in both Malaysia and Singapore can be found due to five board directors being in charge of the management control**.**

2.5.2 Blockholders ownership

According to Barclay and Holderness (1992), Shareholders or investors who hold at least 5% of company common shares are called blockholders. The author also argued that fluctuation of share price depends on acquisitions of large share blocks, when it comes to increase in price, usually lesser than the premium is paid by the acquirer of the stock (demonstrating the actuality of some private benefits of control to the blockholders).

Owning of share by blockholders over a specific level may prompt entrenchment of owner-managers that seize the wealth of minority investors (Fama and Jensen 1983; Morck, Shleifer and Vishny 1988; Shleifer and Vishny 1997). The ownership portfolio risk will increment with their presentation, which may impact both risk taking and expected returns.

A negative effect of firm size (market value) on ownership concentration was proposed and supported by Demsetz (1995). For instance, when the firm share price is high,

shareholders tries to sell the share which tends to drop the negative feedback by blockholders ownership. Additionally, positive relation expected only may occur if blockholders decided to stay in control, as higher market prices allow a certain level of investment issuing a smaller measure of stock to outside owners (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). Thus it is believed that, there is positive and negative relationship between blockholders ownership and firm value. So, it is inferred that high value companies' shares held by incumbent owners in big portions or fractions have positive effect of firm value towards share portion that was held by incumbent shareholders.

Quality management control can be provide by those large shareholders who has similar thoughts as outside investors, whilst the larger ownership has negative relationship on corporate governance (negative impact on corporate performance). However, thoughts can be diverged between large blockholders and outside investors. On the other side, to get large profit or incentive from the shares, those large blockholders would attempt to monitor manager effectively (Meckling and Jensen, 1976).

Stiglitz (1985) argued that, large blockholders may use their authorization negatively where they can control at the expense of minority shareholders. Expense of the minor shareholders can better off at the expense since they have strong incentive in order to divert resources regardless of the identity of large blockholders (Wruck, 1989). Minority investors are afraid of acquisitions by managers and their owners who are causing difficulties in increasing equity financing as suggested by La Porta R (1998) about the surrounding firms with concentrated owners.

In fact, all these issues (fundamental agency problem) are due to conflicts between large blockholders who has control over managers and outside investors (minority shareholders) (Shleifer and Vishny, 1997). As a matter of fact, with the intention of extracting control premiums at the expense of other shareholders, large blockholders will abuse their power in the view of entrepreneurs. This can negatively affect the firm's value and may prevent investors from investing.

2.5.3 Number of blockholders

Firm value improves due to liquidity particularly in firms with multiple blockholders as documented by Bharath, Jayaraman and Nagar (2010) while Smith and Swan (2008) study shows that trading by multiple blockholders disciplines managerial compensation. Increase in the number of blockholders leads to improve company performance, price efficiency augments, and reduces trading profits (David, Gardner, & Swan, 2010). Boehmer and Kelley (2009) viewed that ownership dispersion is in increased while the price instructive in number of blockholders is increasing (Gorton, Huang, & Kang, 2010).

Using total institutional ownership or the holding of the largest shareholder is provided by corporate governance, however the number of blockholders is a key driver for market efficiency and significant variable in corporate governance (Gorton, Huang, and Kang, 2010).

Financial market and firm value has impact from number of blockholders and its help to predicts that a more prominent number of blockholders decreases total trading incomes, however builds price effectiveness. Multiple blockholders can enhance the value of firm, as opposed to existing models that advocate a single concentrated

blockholders. The impact of the number of blockholders on costs and firm value recommends that it is a critical determinant of both market proficiency and corporate governance (Gallagher, Gardner and Swan, 2010).

2.5.4 Total assets

Firm size (the size of the company) illustrates the size of the total assets owned by a company. The bigger the company access to funds will be more easily so that the agency costs will be even greater. This is supported by Ehikioya (2009), who also mentioned that firm size can be measured by total assets. Therefore, total assets are good representation of how large or small a firm in size. Things that can be classified under assets are land, equipment, receivables and so on whichever owned or will be owned by owners themselves. Financial distress likelihood is faced by small size firm compared to large size firm as mentioned by Altman (1968). According to Elloumi and Gueyié (2001), it was shown that, large firms have the ability to bear the shock of economic environment since they have good management skills as the reason for less probability in defaulting. However, they face some difficulties as well since they have a large board which leads to monitoring issues and also difficulties to control subsidiaries that were opened in different countries. Therefore, financial distress affects less for larger firm, hence the size of company has positive relation with financial performance (Elloumi and Gueyié, 2001).

2.5.5 Total Assets Turnover

Total assets turnover referring to how firm generate the income by efficiently utilize the total assets. The higher turnover of the assets representing the more proficient the company will be regarded to be in the usage of resources for generate profit (Okwuosa, 2005). Osisioma (2000) examine expressed that total asset turnover proportion

estimates the productivity of the utilization of the capital put resources into the benefits by relating the volume of offers to the total asset utilized in the business. The bigger the estimation of profit (contributed capital), the bigger will be the sales on put resources into the benefits of the business. The author additionally said that the proportion have an expansive proportion of the productivity of the utilization of capital, since the total asset incorporate plant and other long term asset (fixed asset) and current asset as well. It assist management to decide whether the business volume is adequate, in respect to the capital duty in the business.

2.5.6 EBIT to Interest expense ratio

Rajan and Zingales (1995) study stated that, interest coverage ratio can be measured by both earnings before interest and taxes (EBIT) to interest expense and earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense. To ensure that the firm is focused, the former proxy only fits if the investment is as large as the depreciation is required although both ratios are used in Rajan and Zingaless (1995) models. If such investment is not needed, the better measure of the firm's ability to pay the debt is EBITDA at fixed interest costs. A typical issue for the two measures is that they accept that short-term liabilities like accounts payable and less than 1 year obligation will be moved over, which may not be valid in the midst of distress. Moreover, as Jensen (1986) argues, an inability to make fixed payments at low levels of obligation may have altogether different ramifications for the control of firm than a failure to make those payments at high levels of obligation. The previous will probably prompt liquidation while the last may prompt redesign (particularly if the obligation is firmly held). Another issue is that these measures are extremely sensitive to profit fluctuation.

2.5.6 Leverage

Total debt divided with total assets refers to leverage ratio which tends to measure company financial risk. Khalifa, White, and El Sayed, (2007) expressed that the empirical finding shows negative relation between leverage and financial distress risk. On the other hand, positive relations were found between leverage and financial distress (Parker, Peters, and Turetsky, 2002). Jong, Kabir, and Nguyen (2008) considered the impact of firm-particular factors in in leverage decisions into account and led an overall review to explore the leverage determinants. They also found that nation particular factors as leaser right protection, impose rate, bond market development and GDP development rate which has impact on corporate capital structure. Besides, there is a distinction in the greatness of firm-particular variables affecting leverage decision in various nations, for example, firm development and productivity. At long last, in nations with a superior lawful condition and generally steadier and more beneficial conditions to lead business, firms relatively take on more debt.

2.5.7 ROA

Return on Assets (ROA), a measures the general adequacy of management in producing returns to ordinary investors with its accessible resources. Return on Assets (ROA) is positive indicates that of the total assets used to work to generate income to the organization. Alternately, when a negative profit for resources demonstrates that the utilization of total assets, the organization endured a loss. So that if an organization has a high ROA are sure then the organization has an awesome chance to improve the development of their own capital. on the other hand, if the total assets utilized by the organization are not influencing a benefit it to will hinder the development of their own capital. Nonetheless, Uchida (2006) study stated that the ROA has positive and huge

effect on Tobin's Q. Whereas, Ulupui (2007) study discovered outcomes that ROA huge beneficial outcome on stock returns one period ahead. Subsequently, ROA is one of the components that influence firm performance. Carlson and Bathala (1997) likewise found that ROA constructive outcome on firm value. But, the distinctive outcomes acquired by Suranta and Pratana (2004) as the study found that ROA negatively influence the value of the organization.

2.5.8 Current Ratio

Eljelly, A (2004) documented that current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis estimated the connection between profitability and liquidity. This author found a negative connection amongst profitability and liquidity pointers, and it was discovered that money transformation cycle had a greater effect over productivity then Current ratio. Likewise it was seen that there was awesome variety among businesses as for the huge proportion of liquidity.

The most widely recognized proportion of liquidity is present proportion and quantifiable profit for benefit. A higher current ratio demonstrates a bigger interest in current resources which implies, a low rate of rate of profitability for the firm, as abundance interest in current resources won't yield enough return. A low current ratio implies littler interest in current resources which implies a high rate of degree of profitability for the firm, as no unused venture is tied up in current resources (Vishnani & Bhupesh, 2007).

The lower the current ratio, the higher the probability will be for company to be financially distressed and face difficulty to meet the obligations when level of liquidity

is less than one (Ross, Randolph, and Jeffrey, 2005). Likelihood of company failure depends on the poor liquidity as indicated by ratios (Parker, Peters, and Turetsky, 2002).

2.5.9 Cumulative abnormal return

According to Fama and French (1993), Shareholders have greater facility in access to data of extensive size firms and so can mirror their desires for the future in the organizations' fairly estimated worth. Subsequently, market gearing might be more exact to clarify large-firms abnormal returns than to little size-ones (Fama & French, 1993).

Extant literature on the market reaction to dividend initiation announcement shows that earning changes could affect investors' behavior towards firms' dividend initiation news. This is supported by Schultz (2004) and Jin (2000) who documented that the variable Earning Changes could decide shareholders response to profit inception declaration leading to abnormal. Earning Changes has double arguments. On one hand, Jin (2000) contended that it is contrarily identified with cumulative abnormal returns and this outcome was supported by Schultz (2004). Then again, Jin (2000) inspired proof to demonstrate that if shareholders are informed of the company's sure profit, they will probably respond unequivocally by buying more stocks whenever the firm reports profit inception.

Another study by Garlapi and Yan (2011) stated that cumulative abnormal returns can be justified by the existence of financial risk due to debt intensity. The author added that family firms are more unsafe to shareholders because of their characteristics. Subsequently these organizations may show an abnormal return because of its proprietorship structure.

CHAPTER 3

METHODOLOGY

3.1 Introduction

This chapter focused on the methodology and the methods on how the research project was carried out. It focuses on data collection and the different approaches used to obtain the data. This chapter is divided into six subsections which comprise of research framework, hypothesis development, research design, variables used, data collection and sampling.

3.2 Research framework

The research framework for the study is as follows:

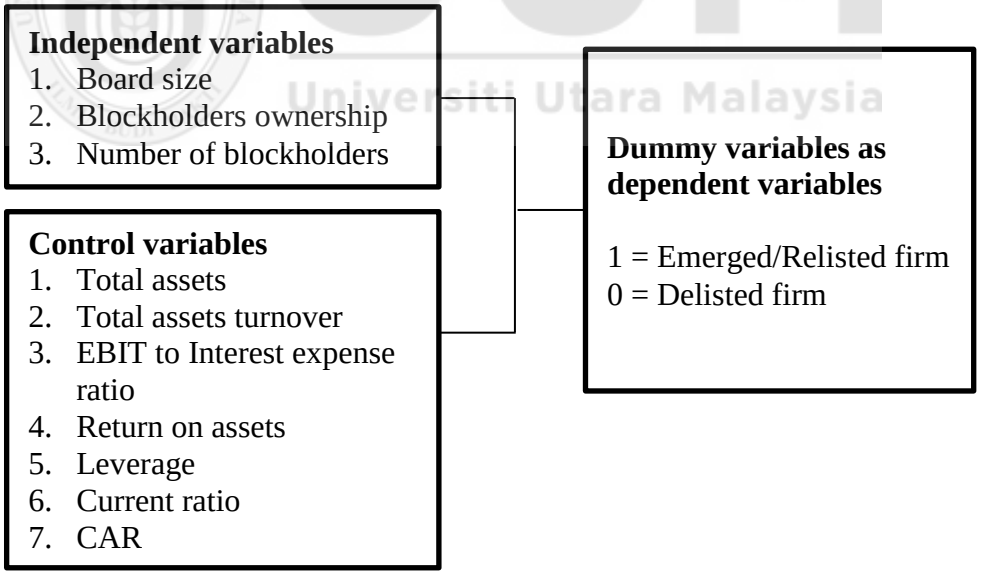

Figure 3.1

Research Framework

3.3 Hypotheses development

The hypotheses developed for this study are according to the research question and research objectives as discussed in Chapter 1. Three hypotheses have been developed for this study.

3.3.1 Board size

The problem of delegation will take place when there is a large board and oversight over the CEO is not efficient and there is also an opportunity to act as an unrelenting individual. Whereas the second theoretical literature says that advantages, ideas, proposals and benefits can be expected by having a smaller board. Actually, a small board can be managed by the Chief Executive Officer easily and vice versa (Mokarami & Motefares, 2013). Pearce and Zahra (1992) and Pfeffer (1972) mentioned in contrast, advantages such as facilitating access to resources and information held by directors, larger boards are appropriate where they also help to achieve the company's objectivity. Based on the explanation above, it can be concluded that the relationship between size of the board and business performance would have negative relationship on emerging financial distress.

H1: Board size is expected to have significant negative impact on emerging financially distressed companies.

3.3.2 Blockholders ownership

In spite of the fact that there is an assumption in the writing that large investors (holding large number of shares) have more noteworthy power and more grounded motivating forces to guarantee investor esteem amplification (the incentive alignment theory) the

hypothetical connection between interest of ambiguous firm and large owners (Jensen, and Meckling 1976; Zeckhauser, and Pound 1990; Burkart, Gromb, and Panunzi 1997). Owning of share by blockholders over a specific level may prompt entrenchment of owner-managers that seizes the wealth of minority investors (Fama, and Jensen 1983; Morck, Shleifer, and Vishny 1988; Shleifer, and Vishny 1997). Risk taking and expected returns will be impacted when the ownership portfolio risk increases with their exposure.

In certain countries, blockholders ownership has positive effect on firm value since they focus on managerial agency problem and having lower levels of investor protection (Shleifer and Vishny, 1997; La Porta R 1998). The perseverance hypothesis was developed by Bebchuck and Roe (1999) to explain that, market-based structures maximized the firm's financial value, however the controlling shareholder structure did not automatically develop into an ineffective structure. Personal benefits exist for controlling shareholders (Bebchuck and Roe, 1999). Companies must share with minority investors the benefits gained by selling more shares to the public which reduces the incentives to surrender private controls when firms adopt mixed ownership structures (Bebchuck and Roe, 1999). Therefore, the proposed hypothesis is as follows:

H2: Blockholders ownership is expected to have significant positive impact on emerging financially distressed companies.

3.3.3 Number of blockholders

There are generally few existing theories regarding multiple large shareholders. Zwiebel (1995) demonstrates that various blockholdings can arise when investors compete for the private advantages of control by framing alliances. The last

shareholding structure speaks to the result of a power battle as opposed to proficiency, while in the paper the quantity of blockholders is ideally boosted firm performance.

However, managers monitoring actions will be reduced due to large number of blockholders existence since vigilant responsibilities are diluted among a greater number of dominant shareholders. This results in the managers starting to show self-serving behavior due to discretion enhancement and low risk strategies that might be pursued by managers and trying to avoid risky projects. (Finkelstein and Boyd, 1998). The hypothesis would be as the following:

H3: Number of blockholders is expected to have significant positive impact on emerging financially distressed companies.

3.4 Research Design

This study aims to investigate the relationship between corporate governance and financial distress in corporate from various sectors.

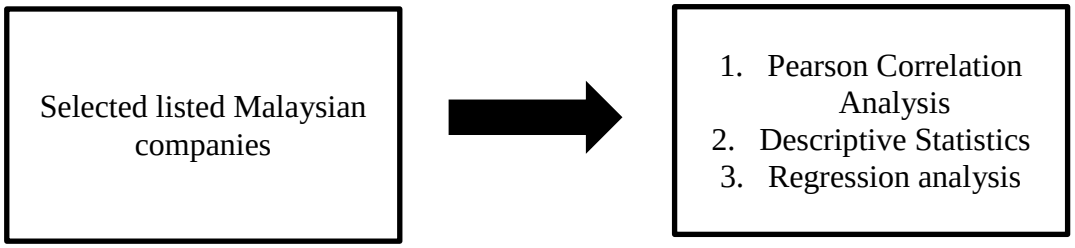

Figure 3.2
Research Design

3.5 Variables

3.5.1 Dependent variables

For the dependent variable, dummy variable was used for this study. It is coded as 1 for emerged or relisted firm and 0 for delisted firm.

3.5.2 Independent Variables

Board size

Number of individuals who serve in a company board is referred as board size.

Blockholders ownership

Blockholders ownership is the owner of a large block of a company's shares and/or bonds and have the power of the voting rights in a company.

Number of blockholders

The number of shareholders who holds more that 5% ownership shares of a company.

3.5.3 Control variables

Total assets

Total assets refers to the total amount of assets owned by an individual or entity. Total assets measured by sum of all current and noncurrent assets and must equal the sum of total liabilities and stockholders' equity combined.

Total assets turnover

The total asset turnover ratio indicates the efficiency of the company’s usage of

its total asset base (net assets equal's gross assets minus depreciation on fixed assets).

EBIT to Interest expense ratio

EBIT to Interest Expense is a measurement of how much a company is earning (EBIT) over its interest payments. A ratio of five means that a company is making five times its interest payment expense.

Leverage

Leverage ratio is used to decide the relative level of obligation stack that a business has brought about. These ratios contrast the total obligation commitment with either the assets or equity of a business. A high ratio shows that a business may have brought about a larger amount of obligation than it very well may be sensibly anticipated that would benefit with progressing cash flows.

ROA

Return on asset, is a fundamental measure of company profitability, reflecting how efficiently and resourcefully its assets are used. Obviously, the greater the net income for a given amount of assets, the better the return.

Current Ratio

This ratio measures the ability of the firm to pay off its current liabilities by liquidating its current assets (that is turning them into cash). It indicates the firm's ability to avoid insolvency in the short period.

Cumulative abnormal return

An abnormal return is the difference between the expected return and the actual return of a stock. A cumulative abnormal return is the sum of the abnormal returns.

3.6 Data

This study collected the secondary data from Bursa Malaysia website, DataStream and also firm's annual reports. All firm specific factors data such as leverage, current ratio, return on assets, total assets, total assets turnover, EBIT to Interest expense ratio are extracted from the DataStream database while data on corporate governance variables are extracted from firms' annual reports. The empirical analysis covers period from year 2001 until 2013. This study performed statistical analysis by using Statistical Package for the Social Sciences (SPSS) to test the hypotheses. The SPSS had performed descriptive statistical analysis, correlation test, and regression analysis.

Table 3.1
Variables definition and data sources

Variables	Description	Sources
Outcomes	Dummy variable (1 = Emerged; 0 = Delisted)	Companies announcement from Bursa Malaysia website
Board size	Total number of directors on the board	Companies annual report
Blockholders ownership	% of shares held by shareholders owning 5% or more	Companies annual report
Number of blockholders	owner of a large block of a company's shares and/or bonds	Companies annual report
Leverage	The ratio of total liabilities to total assets	DataStream

Current ratio	Current Assets / Current Liabilities	DataStream
Return on assets	Net Income / Total Assets	DataStream
Total Assets	The sum of all current and non-current assets	DataStream
Total Assets Turnover	Sales/total assets	DataStream
EBIT to Interest expense ratio	Earnings before interest and tax/interest expense	DataStream
CAR -1,+1	Cumulative average abnormal return of days -1 to +1	Author's calculation

This study performed statistical analysis by using Statistical Package for the Social Sciences (SPSS) to test the hypotheses. The SPSS had performed descriptive statistical analysis, correlation test, and regression analysis.

3.7 Sample

The objective of this study is to examine the corporate governance variables impact towards financially emerging companies in Malaysia. The data are collected from year 2001 until 2013. The summary of final sample is shown in Table 3.2. Industries such as financial institution, real estate and insurance companies are excluded from this present study, due to the reason of the different presentation format of financial statements as compared to other industries.

Table 3.2
Sample Selection

Sectors	**Number of firms**
Construction	24
Consumer Products	26
Hotels	3
Industrial Products	68
Infrastructure Project Company (IPC)	2
Plantations	8
Properties	24
Technology	20
Trading/Services	57
Total	**233**

CHAPTER 4

EMPIRICAL RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the empirical results of the study. In the first section, a summary of descriptive statistics for the ten variables have been presented. Second section discusses the Pearson correlation analysis and followed by the regression analysis between dependent and independent variables.

4.2 Descriptive statistics

The analysis of descriptive statistics is important for us to understand the basic characteristics of the data. Table 4.1 below shows the results of all variables from descriptive statistics in the term of mean, median, maximum value, minimum value and standard deviation (s.d.). There are a total of 232 companies that have been chosen to analyze cumulative abnormal return as the average is about -0.2261 together with a standard deviation of about -0.2523. This negative return is due to poor management or factors beyond its control, struggles during the period of investment. The mean value of total assets is 349772.26 whereas standard deviation is 564054.317. Moreover, the mean value of the total assets turnover is 0.52 which is less than 1. This is mainly due to different industry companies have been chosen as samples for the analysis. Furthermore, the low turnover may also mean that the companies might have unsystematic collection methods. The collection period of debts from receivables might be too long, prompting a higher

records receivable. Target could likewise not utilize its advantages proficiently. For instance, several assets such as equipment or land are not being utilized to their full capacity or could be sitting idle. Mean value of ROA is -17.27 with -164 and 58 of minimum and maximum value respectively. It indicates that on average, the firms have return on their assets at -17.27.

The mean value of EBIT to expense ratio is 1.99 which obviously specified that the companies selected are in a better position to settle both its obligations and liabilities. This also indicates that on average, the companies have enough cash to pay off their expenses within a timeframe. Apart from that, leverage ratio shows the average value of around 64.20. As we investigate, the highest debt ratio achieves 565 values. This firm may be more dependent on the debt financing for capital structure. On the other hand, the lowest value leverage ratio is 0, in which states that this firm is mostly equity financing rather than debt financing for their capital structure. The current ratio ranges from 0 to 11. Theoretically, liquidity position of organizations will be weak if the current ratio is lower than 1. This does not mean that excess amount of cash or inventory lead to greater liquidity position for a company when the current ratio shows greater than 1. Prominently, the mean of current ratio is about 0.82 which specifies a poor or weak liquidity position for most of the selected companies on average.

Alnaif (2014) and Yasser, Harry and Mansor (2011) stated the mean value for board size in Arabian Banks and Pakistan firms are about 9.76 and 9.3 respectively based on their empirical finding. These values are consistent with Jordanian Corporate Governance Codes

since they recommend the appropriate board size to be from 5 to 13 members. The above result for the average value of board size shows 6 as supported by previous studies and Jordanian corporate codes. The minimum value of 3 is due to small scale company which is run by family members. Both number of blockholders and blockholders ownership has mean value 2.82 and 0.3446 respectively. This means both variables have significant impact to determine a company's future after the financial distress status.

Table 4.1
Data distribution

Variables	N	Min	Max	Mean	Std. Deviation
CAR -1,+1	232	-1.28	0.38	-0.23	-0.25
Total Assets	195	3211.00	3930666.00	349772.26	564054.32
Total Assets Turnover	195	0.00	9.00	0.52	0.88
EBIT to Interest expense ratio	193	-674.00	2470.00	1.99	185.49
LEV	194	0.00	565.00	64.20	61.76
ROA	177	-164.00	58.00	-17.27	29.93
Current Ratio	186	0.00	11.00	0.81	1.09
Board Size	228	3.00	13.00	6.29	1.66
Blockholders ownership	196	0.05	0.95	0.34	0.17
Number of blockholders	197	1.00	19.00	2.82	1.90

4.3 Pearson Correlation analysis

Table 4.2 shows the correlation matrix among the explanatory variables. Correlation test is conducted to determine the dependent variable association

towards the independent variables. The low connections found between the illustrative factors demonstrate that the issue of multi-collinearity irrelevance in the informational collection. Since the outcome displayed in Table 4.1 demonstrated that most cross connection terms for the informative factors are genuinely little, subsequently showing no reason to worry about the issue of multi-collinearity among the illustrative factors.

Besides deciding the presence of the bivariate relationship between factors, connection grids additionally receive as to guarantee the connection esteems among factors are not very high keeping in mind the end goal is to confine the presence of a multi-collinearity issue.

Based on analysis, Total assets turnover has negative correlation with total assets at 1% significant level and number of blockholders is positively significant correlation with total assets at 1%. While ROA is positively significant at 5%. For EBIT to interest expense ratio show a significantly positive correlation with ROA at 1 % significant level but negative correlation with current ratio 5% significant level. There is no significant correlation between the corporate governance variables.

LEV measured by total debt ratio which is show a significantly negative correlation with ROA and current ratio variables at 1% significant level, however ROA variable is positively significant at 5% with current ratio and board size variables. Furthermore, the corporate governance variable, blockholders ownership shows positively significance with the number of blockholders at 1

Table 4.2

Correlation matrix

	CAR -1,+1	TOTAL ASSETS	TOTAL ASSET TURNOVER	EBIT TO INTEREST EXPENSE	LEV	ROA	CURRENT RATIO	BOARD SIZE	BLOCKHOLDERS OWNERSHIP	NUMBER OF BLOCKHOLDERS
CAR -1,+1	1									
TOTAL ASSETS	0.069	1								
TOTAL ASSET TURNOVER	-0.124	-0.210**	1							
EBIT TO INTEREST EXPENSE	0.024	-0.036	-0.036	1						
LEV	0.093	-0.066	0.107	-0.051	1					
ROA	0.058	0.179*	-0.027	0.225**	-0.356**	1				
CURRENT RATIO	0.026	0.070	-0.006	-0.181*	-0.321**	0.192*	1			
BOARD SIZE	0.029	0.098	-0.029	-0.018	-0.100	0.168*	0.059	1		
BLOCKHOLDERS OWNERSHIP	-0.117	-0.023	-0.032	-0.046	-0.071	0.074	0.102	0.081	1	
NUMBER OF BLOCKHOLDERS	0.004	0.357**	-0.073	0.011	0.046	0.048	0.034	0.050	0.451**	1

***. Correlation is significant at the 0.01 level (2-tailed).*

**. Correlation is significant at the 0.05 level (2-tailed).*

4.4 Logistic Regression Analysis

Table 4.3 explains about the models have been developed for this study. Model 1 is analysis of the financial variables as all the variables are negatively insignificant except for ROA. Based on the analysis, the result of ROA shows 0.026 which is positively significant and it is statistically significant at 5% level. Overall, the classification result of financial variables is 64.2. Return on Assets is one of the measures of firm performance which has no relation to the corporate governance as stated in few studies. However, Ahmed and Hamdan (2015) study (impact of corporate governance on firm performance) proved that ROA is interrelated to the corporate governance since the result shows significant correlation to the firm performance. This study is conducted in Bahrain with the sample of 42 companies from 2007 to 2011. Adhering to corporate governance by managers and owners has the probability to decrease the agency conflict as well as strengthen company performance. Return on Equity (ROE), Return on Assets (ROA), and better Tobin's Q can be found in better governed United States (U.S) firms (Brown and Caylor, 2009). Whilst Klein, Shapiro and Young (2005) expressed different opinion that firm performance does not depend on better governance and there is no universal evidence to propose.

Model 2 is a combination of financial and market variables. The additional market variable is cumulative abnormal return as it portrays the estimation of a speculation. In particular, it depicts the connection between the normal estimation of a stock given the execution of the market all in all and the stock's actual value. According

to the estimation results, when the CAR variable combines with other financial variables, the result shows that both ROA and CAR variables show positive significant level at 5%. The classification result for this model is 63.80% which is lower than other models.

Lastly, Model 3 provides the analysis result of financial variables, market and governance variables. Board size, Blockholders ownership and number of blockholders are the three governance variables that have been added to test the significant levels whether they are positive or negative with other variables. The model correctly classified 73.9% of overall cases or also known as the percentage accuracy in classification which is higher than other models when the analysis included all the variables that has been used in the model. The classification table is shown in Table 4.4.

The result shows that board size is no significant and CAR variable, blockholders ownership and numbers of blockholders variables are positively significant at 1%. For financial variables such as Total assets and ROA, they are positively significant at 5%. This may be explained by the fact that big firms have higher changes to emerge in the future than small firms since they make use of the scale economy. According to Rothschild (2006), ROA incorporates both net income and firms' assets into its computation and is therefore the premier metric in evaluating the performance of management. The author also examined the role of economic cycle on small firm's performance. Using ROA as the performance measure, they

found that small firms perform better than large firms during good economic conditions. When the economic condition is weak, however, small firms tend to have poor performance and high financial distress risk. This is more than likely because small firms tend to have lower ROA and higher leverage in comparison to large firms (Chan and Chen, 1988). Another study found that ROA used to respond with outside investors as an indication of information about the future cash because ROA is obtained from the net profit after tax is used as the basis for calculating net cash flow. Performance of the company will be seen as a barometer of the company's success in implementing a policy that has been taken. As a result, if the performance is good, evidenced by the large ROA, it will responds with an outside investor to invest in the company. This could drive the company's stock market value and company growth by increasing the company's stock market price (Dodd and Chen, 1996).

The CAR value shows positive significant at 1% which demonstrating that the market able to identify on which company will be survive in the future by emerging from financial distress status. Performance of stocks of these distressed companies close to announcements is a matter of concern to the investors. Past studies on market reaction to bankruptcy filings are well documented in empirical studies (Beneith and Press, 1995, Dawkins and Bamber, 1998, and Lang and Stulz, 1992). Major negative CAR surrounding the days of financial distress announcement was detected, as it is reflected as a bad news. The weakening of price is associated with the investor's prior assessment of the firm's likelihood of financial distress. The

extent of the reaction could be because of the expected resolution of bankruptcy and recovery in the event of financial distress (Beneith and Press, 1995, Chen and Church, 1996, Kennedy and Shaw, 1991, and Rose-Green and Dawkins, 2000). Therefore, market participants may probably perceive upshots as important, possibly causing different reactions by investors. Thus, if a market is efficient, it will be able to distinguish between failing companies which are capable of restructuring and resuming business (good news) and those that have failed. These different outcomes carry different values for the shareholders, and the market may have a certain insight or foresight into companies' future prospects, which may cause different stock price reactions.

Both blockholders ownership and number of blockholders variables have positive significant at 1%. This result shows that blockholders ownership and number of blockholders has the power to influence the performance of the company and ownership concentration encourages innovative strategies that help maximize value. Thus, if blockholders remain in control with strong preferences, it can bring positive feedback effect from firm value to blockholders ownership since a higher market makes it conceivable to finance a given level of investment by issuing a low amount of stock to outside owners. (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000). Positive effect from firm value to blockholders ownership occurred when those share owners who hold large portion of the share especially in high-value organizations. By issuing fewer shares while relying more on debt and internally generated funds, blockholders and managers able to finance certain

investment levels with high stock price and value of the firms.

Market-based systems are typically considered to have possession rights by other institutional financial shareholders, people and other minority speculators. In comparison, European continental control-based system is portrayed as having higher blockholders ownership by establishing families, corporate shareholding and governments and less fluid securities exchanges. Certain countries provides lower protection for investors since these countries focus on agency problem which lead to some positive impacts on blockholders ownerships (Shleifer and Vishny, 1997; La Porta R, 1998; and Denis and McConnell, 2003).

Table 4.3
Regression results

Variables	MODEL 1 (Financial variables only)			MODEL 2 (Financial variables and market variable)			MODEL 3 (Financial variables, market and governance variables)		
	B	**S.E.**	**Sig.**	**B**	**S.E.**	**Sig.**	**B**	**S.E.**	**Sig.**
Total Assets	0	0	0.386	0	0	0.43	0.000	0.000	0.044*
Total Assets Turnover	-0.254	0.238	0.286	-0.232	0.254	0.36	0.035	0.304	0.908
EBIT to Interest expense ratio	-0.004	0.005	0.444	-0.003	0.005	0.52	-0.002	0.004	0.669
LEV	0	0.003	0.959	-0.001	0.003	0.76	0.002	0.004	0.603
ROA	0.018	0.008	0.026*	0.018	0.008	0.03*	0.024	0.011	0.024*
Current Ratio	-0.076	0.257	0.768	-0.126	0.262	0.63	-0.035	0.294	0.904
CAR -1,+1				1.626	0.722	0.02*	2.608	0.954	0.006**
Board Size							0.013	0.131	0.92
Blockholders ownership							4.841	1.483	0.001**
Number of blockholders							-0.343	0.135	0.011**

***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

Table 4.4
Classification results

Model	Percentage (%)	Variables
1	64.20	Financial variables
2	64.80	Financial variables and market variable
3	73.90	Financial variables, market and governance variables

4.5 Conclusion

Summarize of the data explanation has been describe under descriptive analysis which represent the entire or a sample of a listed financial distress companies in Bursa Malaysia. Approximately, 233 listed companies has been chosen as sample size, however not all variables details are available for certain companies. Whilst, Pearson correlation analysis measures connection between two variables and followed by three models has been developed under regression analysis to test significant relationship between financial, market and corporate governance variables.

CHAPTER 5

CONCLUSION

5.1 Introduction

This chapter concludes the overall study and it consists of three sections. Section 5.2 discussed summary of the study while section 5.3 outlines the limitations of the study. Lastly, Section 5.4 provides the recommendation for future research.

5.2 Summary of the study

This study explores the link between corporate governance variables on emerging financially distressed companies by choosing 233 Malaysian listed firms over 13 years period, 2001 to 2013. This study does not focus on any specific sector as various sectors have been selected from bursa main and ACE market. This study attempts to develop its own models by variables to do the comparison and test the significant factor.

The main hypothesis of the study is to identify any significant relationship of corporate governance variables on emerging financially distressed companies. In line with this hypothesis, the result shows a positive and statistically significant relationship between financial distress and blockholders ownership and number of blockholders. The result is also consistent with Jensen and Meckling (1976), Zeckhauser and Pound (1990) and Burkart, Gromb and Panunzi (1997) as their study found that large shareholders have greater power and stronger incentives to ensure

shareholder value maximization.

This study also includes other variables such as size (total assets), total assets turnover, EBIT to interest expense ratio, LEV, ROA, Current Ratio in order to explore how these financial variables influence corporate variables on emerging financially distressed companies. This study also included market variable CAR to test the impact on the emerging financially distressed companies.

Total asset turnover is not significant based on regression analysis due to company assets to generate revenue might be diverse for each company. Based on Pearson correlation analysis, EBIT to interest expense ratio show a significantly positively correlated with ROA, whilst negatively correlated with current ratio.

Furthermore, the results also show that blockholders ownership and number of blockholders have a positive significance on emerging financially distressed companies but no relationship with board size. Blockholders ownership and the number of blockholders are ubiquitous as indicated. For all intents and purposes of each partnership, of each size in each nation, has them. It is difficult to envision how firms could get by in a market economy without huge investors. Blockholders can be managed through exit (to describe the blockholders influence on managerial decisions through the trading), not simply through voice (splitting a block reduces the effectiveness of direct intervention). This new way of blockholders approaches as informed traders, rather than just as controlling entities suggests new directions for

both theoretical and empirical research. Blockholders can exert governance through the threat of exit and voice, rather than only through actual exit and voice. So blockholders might apply governance regardless of whether threats are done or not.

5.3 Limitation of the study

Several main limitations are recognized in this study. Firstly, this study focuses on mixture of delisted and re-listed companies regardless of all sectors. All sectors that are listed in ACE and Main Market of Bursa Malaysia have been used for this research. There are a few other sectors that have been left out including consumer products, construction, mining, technology, plantations and properties. Thus, the results do not portray the other sectors in Malaysia. In order to get more satisfying and accurate results, a larger sample should be employed.

The investigation only focused on Malaysian firms which would condescendingly suggest that the finding or data obtained from this examination only give practical knowledge for corporate management to see how precisely the corporate governance factors bring about the effects. Different nations other than Malaysia are urged to explore this issue keeping in mind the end goal to supply useful information for their separate fiscally upset organizations as various nations have their own arrangement, foundation and even culture.

Furthermore, data gathering is crucial in this study as most of the corporate governance variables data are not available from some companies' annual report. This

study identifies the firms' data solely based on the firms' annual report through the 13 years period. This hand-collected information might provide inaccurate information and the data obtained from DataStream is also incomplete thus some firms need to be removed from the sample.

5.4 Recommendation for future research

This study provides a basis for future research on financial distress and corporate governance based on the Malaysian listed companies. Future research is needed to fully understand the determinant of firms' financing. Recommendations for future research are:

1. An exploration on larger sectors would provide more satisfying and accurate findings.
2. Furthermore, this study also recommends future research to include other firm specifics variable such as tax in order to capture the benefits of debt financing.
3. Since this study is limited in Malaysia only, further research can provide evidences from other countries in order to enhance the understandings on corporate governance impact from different geographical background.

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APPENDICES: SPSS Results

Logistic regression analysis

MODEL 1

Case Processing Summary

Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	165	70.8
	Missing Cases	68	29.2
	Total	233	100.0
Unselected Cases		0	.0
Total		233	100.0

a. If weight is in effect, see classification table for the total number of cases.

Dependent Variable Encoding

Original Value	Internal Value
.0000	0
1.0000	1

Classification Table[a,b]

Observed			Predicted		
			Outcomes		Percentage Correct
			.0000	1.0000	
Step 0	Outcomes	.0000	103	0	100.0
		1.0000	62	0	.0
	Overall Percentage				62.4

a. Constant is included in the model.

b. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.508	.161	9.972	1	.002	.602

Variables not in the Equation[a]

			Score	df	Sig.
Step 0	Variables	TOTALASSETS	2.893	1	.089
		TOTALASSETTURNOVER	1.712	1	.191
		EBITTOTINTEXPENSERATIO	.338	1	.561
		TOTALDEBTTOTALASSETS	.732	1	.392
		RETURNONASSETS	5.994	1	.014
		CURRENTRATIO	.426	1	.514

a. Residual Chi-Squares are not computed because of redundancies.

Model Summary

Step	-2 Log likelihood	Cox and Snell R Square	Nagelkerke R Square
1	207.750[a]	.063	.086

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Classification Table[a]

Observed			Predicted		
			Outcomes		Percentage Correct
			.0000	1.0000	
Step 1	Outcomes	.0000	95	8	92.2
		1.0000	51	11	17.7
	Overall Percentage				64.2

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	TOTALASSETS	.000	.000	.752	1	.386	1.000
	TOTALASSETTURNOVER	-.254	.238	1.139	1	.286	.776
	EBITTOTINTEXPENSERATIO	-.004	.005	.586	1	.444	.996
	TOTALDEBTTOTALASSETS	.000	.003	.003	1	.959	1.000
	RETURNONASSETS	.018	.008	4.947	1	.026	1.018
	CURRENTRATIO	-.076	.257	.087	1	.768	.927
	Constant	-.184	.398	.214	1	.644	.832

a. Variable(s) entered on step 1: TOTAL ASSETS, TOTAL ASSET TURNOVER, EBIT TO INT EXPENSE RATIO, TOTAL DEBT TO TOTAL ASSETS, RETURN ON ASSETS, and CURRENT RATIO.

MODEL 2

Case Processing Summary

Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	165	70.8
	Missing Cases	68	29.2
	Total	233	100.0
Unselected Cases		0	.0
Total		233	100.0

a. If weight is in effect, see classification table for the total number of cases.

Dependent Variable Encoding

Original Value	Internal Value
.0000	0
1.0000	1

Classification Table[a,b]

Observed		Predicted		
		Outcomes		Percentage Correct
		.0000	1.0000	
Step 0	Outcomes .0000	103	0	100.0
	Outcomes 1.0000	62	0	.0
	Overall Percentage			62.4

a. Constant is included in the model.

b. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.508	.161	9.972	1	.002	.602

Variables not in the Equation[a]

			Score	df	Sig.
Step 0	Variables	TOTALASSETS	2.893	1	.089
		TOTALASSETTURNOVER	1.712	1	.191
		EBITTOTINTEXPENSERATIO	.338	1	.561
		TOTAL DEBT TO TOTAL ASSETS	.732	1	.392
		RETURN ON ASSETS	5.994	1	.014
		CURREN TRATIO	.426	1	.514
		CAR11	6.446	1	.011

a. Residual Chi-Squares are not computed because of redundancies.

Model Summary

Step	-2 Log likelihood	Cox and Snell R Square	Nagelkerke R Square
1	202.182[a]	.094	.128

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Classification Table[a]

Observed			Predicted		
			Outcomes		Percentage Correct
			.0000	1.0000	
Step 1	Outcomes	.0000	91	12	88.3
		1.0000	46	16	25.8
	Overall Percentage				64.8

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	TOTALASSETS	.000	.000	.621	1	.431	1.000
	TOTAL ASSET TURNOVER	-.232	.254	.832	1	.362	.793
	EBIT TO INT EXPENSE RATIO	-.003	.005	.416	1	.519	.997
	TOTAL DEBT TO TOTAL ASSETS	-.001	.003	.094	1	.759	.999
	RETURN ON ASSETS	.018	.008	4.582	1	.032	1.018
	CURRENT RATIO	-.126	.262	.233	1	.629	.881
	CAR11	1.626	.722	5.076	1	.024	5.086
	Constant	.328	.467	.494	1	.482	1.389

a. Variable(s) entered on step 1: TOTAL ASSETS, TOTAL ASSET TURNOVER, EBIT TO INT EXPENSE RATIO, TOTAL DEBT TO TOTAL ASSETS, RETURN ON ASSETS, CURRENT RATIO, and CAR11.

MODEL 3

Case Processing Summary

Unweighted Cases[a]		N	Percent
Selected Cases	Included in Analysis	142	60.9
	Missing Cases	91	39.1
	Total	233	100.0
Unselected Cases		0	.0
Total		233	100.0

a. If weight is in effect, see classification table for the total number of cases.

Dependent Variable Encoding

Original Value	Internal Value
.0000	0
1.0000	1

Classification Table[a,b]

Observed			Predicted		
			Outcomes		Percentage Correct
			.0000	1.0000	
Step 0	Outcomes	.0000	93	0	100.0
		1.0000	49	0	.0
	Overall Percentage				65.5

a. Constant is included in the model.

b. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.641	.177	13.177	1	.000	.527

Variables not in the Equation[a]

			Score	df	Sig.
Step 0	Variables	TOTALASSETS	2.344	1	.126
		TOTALASSETTURNOVER	.448	1	.503
		EBIT TO INT EXPENSE RATIO	.433	1	.511
		TOTAL DEBT TOTAL ASSETS (LEV)	.306	1	.580
		RETURN ON ASSETS	6.364	1	.012
		CURRENTRATIO	.963	1	.326
		CAR11	6.121	1	.013
		BOARD SIIZE	.048	1	.827
		BLOCKHOLDERS OWNERSHIP	3.875	1	.049
		NUMBER OF BLOCKHOLDERS	.046	1	.830

a. Residual Chi-Squares are not computed because of redundancies.

Model Summary

Step	-2 Log likelihood	Cox and Snell R Square	Nagelkerke R Square
1	154.307[a]	.183	.253

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Classification Table[a]

			Predicted		
			Outcomes		Percentage Correct
			.0000	1.0000	
Step 1	Outcomes	.0000	84	9	90.3
		1.0000	28	21	42.9
	Overall Percentage				73.9

a. The cut value is .500

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	TOTALASSETS	.000	.000	4.041	1	.044	1.000
	TOTALASSETTURNOVER	.035	.304	.013	1	.908	1.036
	EBIT TO INT EXPENSE RATIO	-.002	.004	.183	1	.669	.998
	TOTAL DEBT TOTAL ASSETS (LEV)	.002	.004	.270	1	.603	1.002
	RETURNONASSETS	.024	.011	5.125	1	.024	1.024
	CURRENTRATIO	-.035	.294	.014	1	.904	.965
	CAR11	2.608	.954	7.474	1	.006	13.578
	BOARD SIZE	.013	.131	.010	1	.920	1.013
	BLOCKHOLDERS OWNERSHIP	4.841	1.483	10.651	1	.001	126.635
	NUMBER OF BLOCKHOLDERS	-.343	.135	6.473	1	.011	.710
	Constant	-.934	1.040	.806	1	.369	.393

a. Variable(s) entered on step 1: TOTAL ASSETS, TOTAL ASSET TURNOVER, EBIT TO INT EXPENSE RATIO, TOTAL DEBT TO TOTAL ASSETS, RETURN ON ASSETS, CURRENT RATIO, CAR11, BOARD SIZE, BLOCKHOLDERS OWNERSHIP and NUMBER OF BLOCKHOLDERS.

Descriptive data analysis summary

Variables	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
CAR -1,+1	232	99.6%	1	0.4%	233	100.0%
TOTAL ASSETS	195	83.7%	38	16.3%	233	100.0%
TOTAL ASSET TURNOVER	195	83.7%	38	16.3%	233	100.0%
EBIT TO INT EXPENSE RATIO	193	82.8%	40	17.2%	233	100.0%
TOTAL DEBT TO TOTAL ASSETS	194	83.3%	39	16.7%	233	100.0%
RETURN ON ASSETS	177	76.0%	56	24.0%	233	100.0%
CURRENT RATIO	186	79.8%	47	20.2%	233	100.0%
BOARD SIZE	228	97.9%	5	2.1%	233	100.0%
BLOCKHOLDERS OWNERSHIP	196	84.1%	37	15.9%	233	100.0%
NUMBER OF BLOCKHOLDERS	197	84.5%	36	15.5%	233	100.0%

Correlations matrix

		CAR -1,+1	TOTAL ASSETS	TOTAL ASSET TURNOVER	EBIT TO INTEREST EXPENSE RATIO	TOTAL DEBT TO TOTAL ASSETS (LEVERAGE)	RETURN ON ASSETS	CURRENT RATIO	BOARD SIZE	BLOCKHOLDERS OWNERSHIP	NUMBER OF BLOCKHOLDERS
CAR -1,+1	Pearson Correlation	1	.069	-.124	.024	.093	.058	.026	.029	-.117	.004
	Sig. (2-tailed)		.335	.084	.742	.199	.447	.727	.661	.104	.952
	N	232	195	195	193	194	177	186	228	196	197
TOTAL ASSETS	Pearson Correlation	.069	1	-.210**	-.036	-.066	.179*	.070	.098	-.023	.357**
	Sig. (2-tailed)	.335		.003	.618	.359	.017	.339	.176	.767	.000
	N	195	195	195	192	194	177	186	193	164	165
TOTAL ASSET TURNOVER	Pearson Correlation	-.124	-.210**	1	-.036	.107	-.027	-.006	-.029	-.032	-.073
	Sig. (2-tailed)	.084	.003		.625	.138	.718	.940	.686	.681	.354
	N	195	195	195	192	194	177	186	193	164	165
EBIT TO INTEREST EXPENSE RATIO	Pearson Correlation	.024	-.036	-.036	1	-.051	.225**	-.181*	-.018	-.046	.011
	Sig. (2-tailed)	.742	.618	.625		.488	.003	.014	.801	.562	.891
	N	193	192	192	193	191	174	183	191	162	163
	Pearson Correlation	.093	-.066	.107	-.051	1	-.356**	-.321**	-.100	-.071	.046

TOTAL DEBT TO TOTAL ASSETS (LEVERAGE)	Sig. (2-tailed)	.199	.359	.138	.488		.000	.000	.168	.366	.556
	N	194	194	194	191	194	177	185	192	163	164
RETURN ON ASSETS	Pearson Correlation	.058	.179*	-.027	.225**	-.356**	1	.192*	.168*	.074	.048
	Sig. (2-tailed)	.447	.017	.718	.003	.000		.013	.026	.368	.555
	N	177	177	177	174	177	177	168	176	150	151
CURRENT RATIO	Pearson Correlation	.026	.070	-.006	-.181*	-.321**	.192*	1	.059	.102	.034
	Sig. (2-tailed)	.727	.339	.940	.014	.000	.013		.428	.200	.675
	N	186	186	186	183	185	168	186	184	159	159
BOARD SIZE	Pearson Correlation	.029	.098	-.029	-.018	-.100	.168*	.059	1	.081	.050
	Sig. (2-tailed)	.661	.176	.686	.801	.168	.026	.428		.263	.487
	N	228	193	193	191	192	176	184	228	195	196
BLOCKHOLDERS OWNERSHIP	Pearson Correlation	-.117	-.023	-.032	-.046	-.071	.074	.102	.081	1	.451**
	Sig. (2-tailed)	.104	.767	.681	.562	.366	.368	.200	.263		.000
	N	196	164	164	162	163	150	159	195	196	196
NUMBER OF BLOCKHOLDERS	Pearson Correlation	.004	.357**	-.073	.011	.046	.048	.034	.050	.451**	1
	Sig. (2-tailed)	.952	.000	.354	.891	.556	.555	.675	.487	.000	
	N	197	165	165	163	164	151	159	196	196	197

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).